

TFFR Retirees: New Tax Rules That May Affect You

The American Recovery and Reinvestment Act of 2009 (also known as the stimulus package) contain provisions which may change the amount of taxes withheld from your retirement benefits during the remainder of 2009 and all of 2010. These changes may also affect your 2009 and 2010 federal tax returns. The two provisions of this package we want to bring to your attention are the **Making Work Pay Credit** and the **Economic Recovery Payment**.

Making Work Pay Credit

If you are employed, the "Making Work Pay Credit" is 6.2 percent of a taxpayer's earned income with a maximum credit of \$800 for a married couple filing a joint return and \$400 for other taxpayers. It is phased out for higher income taxpayers. This credit will be received through a monthly reduction in your federal tax withholding.

The IRS has issued instructions indicating that the same withholding tables for workers are to be used for pension payments beginning April 1, 2009. However, if you are no longer employed, you will not be entitled to the "Making Work Pay Credit" and may not have enough federal taxes withheld. If you are employed and receiving a TFFR benefit, you still may not have enough federal taxes withheld because the withholding on both your paycheck and TFFR benefit will be reduced for the same "Making Work Pay Credit." To address this issue, you may want to adjust the amount withheld to a level that will more accurately reflect the amount of taxes you will likely owe.

More information about the "Making Work Pay Credit" can be found at www.irs.gov.

Economic Recovery Payment

If you are receiving social security benefits, you will automatically receive a \$250 payment from the Social Security Administration in May 2009. This is called the "Economic Recovery Payment." Unlike the "Making Work Pay Credit," which is given for both 2009 and 2010, the "Economic Recovery Payment" will only be made in 2009.

If you are employed and entitled to the "Making Work Pay Credit," you should be aware that the "Economic Recovery Payment" from Social Security will reduce the amount of your "Making Work Pay Credit." That means you may not have enough withheld and end up owing the difference when you file your taxes. If you are in this situation, you may wish to adjust your federal tax withholding.

More information on the "Economic Recovery Payment" can be found at www.socialsecurity.gov/payment.

What Should Retirees Do?

We encourage you to consult your tax advisor, the IRS, or Social Security for information about how the "Making Work Pay Credit" and "Economic Recovery Payment" will affect your individual tax situation.

If you believe your tax withholding is sufficient, no action is necessary. If you wish to adjust your tax withholding to increase the amount of taxes withheld, you may obtain a substitute W-4P form by calling the TFFR office at 1-800-952-2970, or downloading a form from the RIO website at www.nd.gov/rio. This form can be filed at any time.

Please keep in mind that TFFR staff members are not tax professionals and cannot give tax advice. TFFR is simply providing this information as a courtesy to our members.